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TOP: DEAL SPOTLIGHT: CALIF. I-BANK PRICING TO RE-POSITION REVOLVING FUND

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By Keeley Webster, The Bond Buyer

LOS ANGELES — The California Infrastructure and Economic Development Bank plans to price $97 million in a combined refunding/new money deal Thursday as it ramps up lending.

The bond proceeds will be used to finance or refinance loans to eligible borrowers, to refund all of the outstanding series 2004 and 2005 bonds issued under a 2004 master indenture, and to pay for the cost of issuance.

"This positions the I-Bank to be able to grow our ISRF program - and to really have a better opportunity for getting funds to the community for infrastructure and expansion projects," said I-Bank Executive Director Teveia Barnes.

Gov. Jerry Brown named Barnes and Ruben Rojas, deputy executive director, to their positions in July to set the I-Bank on a more active course to help chip away at an estimated $765 billion in infrastructure improvements needed across the state.

During an Oct. 28 meeting, I-Bank's board approved a new set of lending criteria that enables I-Bank to lend money to borrowers of higher credit quality.

The Infrastructure State Revolving Fund program originally was aimed at helping smaller cities and special districts with limited market access to secure financing by pooling loans of unrated debt.

The I-Bank became part of the governor's Office of Business and Economic Development on July 3 as part of the Brown administration's governmental restructuring process.

The I-Bank was created in 1994 to finance public infrastructure and private development in California and has the authority to issue tax-exempt and taxable revenue bonds, make loans, provide credit enhancements and leverage state and federal funds. Since then it has financed more than $32 billion in infrastructure and economic development projects.

This refunding, and a future refunding of the outstanding 2008 bonds, in addition to capturing interest-rate savings are to help move the ISRF program from its former closed indenture program into an open indenture where all of its loans will be pledged to the payment of all bonds issued.

Piper Jaffray will act as senior manager with Jefferies as co-senior manager. Other members of the financing team are Lamont Financial Services Corp. as financial adviser, Orrick, Herrington & Sutcliffe LLP as bond counsel, and Straddling, Yocca, Carlson & Rauth as disclosure counsel.

The bonds, expected to close on Feb. 6, will have series and term bonds with maturities from Oct. 2014 to Oct. 2043.

The I-Bank management team was "hoping for Triple A ratings, but were quite pleased when it actually happened," Barnes said.

"It felt good that they had recognized all the work that we put into enhancing the ISRF program."

The bonds achieved ratings of AAA, Aa1 and AAA from Standard & Poor's, Moody's Investors Service, and Fitch Ratings, respectively.

"Although the pool quality is modest, more than half of the loans could fail to send in any loan payment and the bonds would still be paid," said Moody's analyst Kevork Khrimian.

The current cash flow provides debt service coverage of 1.7 times through 2029, and higher thereafter, even though the coverage requirement is 1.2 times, the Moody's report said.

The rating agencies also lauded management for employing a timely and rigorous surveillance system to identify weak participants and act quickly in the event of a distressed borrower.

"I think there was strong underwriting and discipline here even before Reuben and I arrived and we have just helped to enhance it," Barnes said.

Fitch on Jan. 10 affirmed an AA-plus on I-Bank's $102 million in outstanding ISRF revenue bonds, the same day it gave the 2014A issuance a Triple A rating.

"The idea is that the future bonds issued through the 2014 master indenture have the ability to improve the credit quality over time," said Major Parkhurst, a Fitch analyst.

Parkhurst was alluding to the I-Bank's plan to expand lending to cities and districts that are rated, which will reduce risk in the loan pool. The new criteria will enable the I-Bank to lend money on larger projects for cities and districts with solid investment ratings.

Most of the loans previously made by I-Bank were to municipalities that would likely be deemed speculative if they were rated, Parkhurst said.

"The rating agencies took into consideration that we revised the criteria to allow more rated borrowers," Barnes said. "They also mentioned that we put $35 million of additional funds over and above the bond proceeds to grow the program."